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December 13, 1988

Dear

This is in response to your letter of November 7, 1988 to Mr. : in which you request our opinion with respect to the following facts contained in your letter and in the trust instrument enclosed therewith.

Mary and Vaughn residents of California, owned as community property, 100% of the capital stock of a California Corporation. On September 17, 1987. Mary and Vaughn , as Settlers, created the Family Trust, and contributed the above shares to the trust.

During their joint lives, they could amend, revoke, or terminate the trust.

Mary died on June 19, 1988, and effective as of that date, the property of the trust was to be distributed to three separate trusts, designated as the "Survivor's Trust," the "Marital Trust," and the "Residual Trust."

Vaughn may amend, revoke, or terminate the "Survivor's Trust" during his lifetime, but shall have no power to amend, revoke, or terminate the "Marital Trust," or the "Residual Trust."

On Vaughn's death, no one shall have the power to amend, revoke, or terminate any trust, except as provided by terms of the trust for distribution of the property.

The "Survivor's Trust" shall consist of Vaughn separate property and his community property. Vaughn has the power to amend, revoke, or terminate the "Survivor's Trust,"

Copy to Vaughn

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and has a general power of appointment over income and principal of the "Survivor's Trust."

The "Marital Trust" shall consist of the minimum dollar amount necessary as a marital deduction to eliminate (or reduce to the extent possible) any federal estate tax due to the death of Mary.

The "Residual Trust" shall consist of the balance of the trust estate.

Survivor's Trust-

Vaughn, as trustee of the "Survivor's Trust," shall pay to or apply to his benefit, for his lifetime, the income of the trust. On the death of Vaughn, the remaining principal and undistributed income of the "Survivor's Trust" shall be distributed to the "Residual Trust" to the extent it is not appointed pursuant to his general power of appointment.

Marital Trust-

The net income of the "Marital Trust" shall be paid or applied for the benefit of Vaughn, and on his death all accrued and undistributed income of the "Marital Trust" shall be distributed to his estate. The remaining principal of the "Marital Trust" shall be distributed as Vaughn may appoint in his will, to his descendant's and their spouses. Any principal of the "Marital Trust" not effectively appointed by him, shall be added to the "Residual Trust."

Residual Trust-

The net income and, in the discretion of the trustee, principal of the "Residual Trust" are payable to or for the benefit of Vaughn, and on his death the remainder shall be distributed to his children, except that in the case of a deceased child, the issue of the deceased child shall take the share of the deceased child, and the trust shall terminate after all issue have attained the age of 28.

Based on the foregoing, you have requested our opinion whether the complete liquidation of California will constitute a change in ownership of its unimproved real property when it is distributed to one or more of the three aforementioned trusts.

Revenue and Taxation Code (all statutory references are to the Revenue and Taxation Code unless otherwise indicated) section 60 defines "change in ownership" as a "transfer of a present

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interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest."

Section 61 provides in relevant part that "[e]xcept as otherwise provided in Section 62, change in ownership, as defined in Section 60, includes, but is not limited to: . . . [¶](i) [t]he transfer of any interest in real property between a corporation . . . and a shareholder"

Section 62 provides in relevant part that "[c]hange in ownership shall not include: . . . [¶](a)(2) [a]ny transfer between an individual or individuals and a legal entity or between legal entities, . . . which results solely in a change in the method of holding title to the real property and in which proportional ownership interests of the transferors and transferees, whether represented by stock, . . . or otherwise, in each and every piece of real property transferred, remain the same after the transfer. . . ." See also Property Tax Rule 462(j)(2)(B) and examples contained therein.

Sections 60 and 61(i) make it clear that unless excluded by section 62, a transfer of real property by a corporation to its shareholders is a change in ownership. Section 62(a)(2), however, also makes it clear that such a transfer is excluded from change in ownership if it is done proportionately. Thus, when California ~~Corporation, Inc.~~ is liquidated, no change in ownership will occur if the real property is transferred to the corporate shareholders proportionately. For example, if the "Survivor's Trust" contains 50 percent of the corporate stock and the "Residual Trust" contains the other 50 percent, the distribution of corporate real property would be excluded from change in ownership under section 62(a)(2) if an undivided one-half interest in each and every piece of corporate real property is conveyed to the "Survivor's Trust" and an undivided one-half interest in each and every piece of real property is conveyed to the "Residual Trust."

However, if such proportionality is not maintained, e.g., if in the example above the "Survivor's Trust" and the "Residual Trust" each held 50 percent of the corporate stock and the corporation were to distribute the real property to only one of the three trusts, the transfer of real property by the corporation would result in a change in ownership requiring total reappraisal of the property transferred.

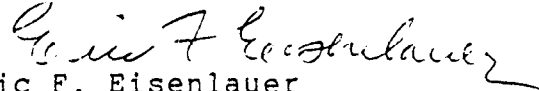
The views expressed in this letter are, of course, advisory only and are not binding upon the assessor of any county. You may wish to consult the appropriate assessor in order to

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confirm that the described property will be assessed in a manner consistent with the conclusion stated above.

If we can be of further assistance in this matter, please let us know.

Very truly yours,



Eric F. Eisenlauer
Tax Counsel

EFE:cb
1709D

cc: Mr. Richard H. Ochsner
Mr. Robert H. Gustafson
Mr. Verne Walton